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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000924

SIPDIS

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA, BOTF/FC PDERGARABEDIAN

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [SNAR](#) [BM](#)

SUBJECT: THE STATE TAKES OVER ANOTHER PRIVATE BANK IN BURMA

REF: RANGOON 402

Classified By: CDA Karl Stoltz for Reasons 1.4 (b,d)

[11.](#) (U) SUMMARY: An apparent GoB takeover of Myanmar Universal Bank (MUB), Burma's sixth largest bank (measured by deposits), triggered increased withdrawals from MUB and a few other banks and has reduced fragile public confidence in the banking sector. The GoB has not announced reasons for the arrest of MUB's Chairman and Executive Director, but the Bank's alleged involvement in narcotics trafficking and money laundering is believed to be the impetus. There are currently no signs that the banking sector is under serious threat. End Summary.

The State Takes Over

[12.](#) (SBU) On Friday evening, August 8, GoB authorities arrested MUB Chairman, U Tin Sein, who is a Chinese Shan, and MUB Executive Director, U Wint Kyaw and closed MUB branches. Both men are thought to be in Insein Prison. On the following Monday, the branches reopened under the administration of Myanmar Economic Bank personnel, as instructed by the Central Bank of Myanmar. Approximately 100 depositors per day at each branch are now allowed to withdraw up to 3 million kyat (\$2,632 at the current unofficial rate) once a week. MUB had deposits of approximately 15 billion kyat (\$13.2 million). Currently, depositors make a request to withdraw funds, receive a receipt and can get their money five days later.

[13.](#) (SBU) Many in the banking and business community believe money laundering activities prompted the takeover. Two events are discussed as possible bases for action: U Tin Sein's alleged connection with the recent seizure of a boat carrying drugs in waters near Burma, or information gained from a recent Thai government delegation. The GoB has not made any announcements about the takeover, and these reasons are speculation.

The Impact

[14.](#) (SBU) On August 8 and 9, the first two days after the takeover, bank clients withdrew approximately 18 billion kyat (\$15.8 million), an amount equal to approximately 15% of the total deposits at the top five private banks. This amount, however, was primarily withdrawn from three banks: Kanbawza Bank, Cooperative Bank, and Myanmar Oriental Bank. Kanbawza, a private bank, (second largest in deposits) has moved 2 billion kyat (\$1.8 million) from its reserve at the Central Bank to cover the withdrawals. Cooperative Bank, a semi-private bank (third largest in deposits), has borrowed 2 billion kyat from the Central Bank. Myanmar Oriental Bank, a private bank, (seventh largest in deposits) has adequate cash reserves. Bank sources say that as of Wednesday, August 10, the rush was over and withdrawal demands have subsided.

[15.](#) (SBU) The takeover has had no immediate impact on the economy. Approximately 20% of the banking sector is private, though some private banks are more accurately categorized as semi-private with government or retired government representatives on the board and are subject to government-directed loan decisions. The kyat withdrawn from the banks will be in circulation, and may be moved to government banks, or used to buy dollars, gold, or other commodities perceived as safer.

Comment: Confidence Takes a Hit

[16.](#) (C) Lack of Central Bank independence and lax oversight had allowed banks to be opened and capitalized without regulatory scrutiny of owners and investors. There are no signs that other banks will meet MUB's fate, but there was no forewarning this time. Two other banks, Asia Wealth and Mayflower, were closed earlier in the year for money laundering activities (reftel). A certain victim will be consumer confidence in the banking system, just barely recovering from the 2003 banking crisis. End comment. Stoltz